

USAID/EI Salvador

Annual Report

FY 2004

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Please Note:

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El Salvador

Performance:

Background: Despite the problems caused by Hurricane Mitch, the earthquakes of 2001, the U.S. recession and September 11th, El Salvador has made progress on all fronts--political, economic and social. In March 2003, El Salvador held its fifth series of free and fair national elections since the 1992 Peace Accords, electing 262 municipal mayors and 84 deputies to the National Legislature. There is every expectation that the upcoming Presidential elections in March 2004 will also be free and fair, consolidating solid democratic electoral processes in El Salvador. Over the past three years, while much of Latin America has experienced negative growth rates, the Salvadoran economy has maintained a modest but positive average annual economic growth rate of 2%. Economic growth projections for this year indicate an even more modest 1.5%-1.8% rate of increase because of investor uncertainty over the upcoming Presidential elections, the continued drop in coffee prices and a 30% increase in prices of imported oil dampening economic activity. Despite this decade of positive economic growth and a major decrease in levels of poverty, the country continues to be challenged by a declining share of national income distribution for the poor. In 1991, the poorest 20% received approximately 3% of the nation's wealth. As of 2002 the poorest 20% of the population only received 2.8% of the nation's income. This declining share of national income for the poor undercuts the significant progress that El Salvador has made over this past decade and poses a threat to an emerging democracy.

El Salvador continues to open its economy, with trade-led growth leading the way. In 2003 the country's exports should reach \$3.16 billion dollars, a 5.7% increase over 2002. Remittances from Salvadorans living abroad continue to maintain liquidity in the Salvadoran economy and reach almost one fifth of the population. This year, remittances should exceed \$2 billion for the first time. At this point the economy is essentially dollarized. El Salvador played an important positive role in helping successfully conclude CAFTA negotiations with the US.

The principal beneficiaries of USAID's programs in economic growth and education, democracy and governance, child survival and reproductive health, the provision of potable water, and earthquake reconstruction continue to be Salvadorans living in poverty in rural areas. Mission programs improve living conditions for the rural poor, with special attention given to rural women, youth and children. Gender concerns have been successfully integrated into our five programmatic interventions. Because approximately 28% of rural households are female-headed, programs in income generation, education, agriculture, micro-enterprise, health and maternal care and access to clean water target women, in particular.

U.S. Interests and Goals: El Salvador's unique strategic location and strong historical and cultural ties to the United States makes political and economic stability in El Salvador a vital U.S. interest. The political and economic liberalization that the United States has encouraged and that El Salvador has successfully adopted has made El Salvador a model for post-conflict developing countries. The U.S. is El Salvador's most important trading partner, receiving 67.3% of its exports and providing 50.1% of its imports. An estimated 2 million Salvadorans reside in the United States, many of them illegally. By promoting prosperity in El Salvador through USAID programming and mechanisms such as the Central America Free Trade Agreement, the U.S. can help strengthen the Salvadoran economy, thereby promoting a reduction in flow of economic migrants to the U.S. and also reducing the country's vulnerability to trans-shipment of narcotics and trafficking in persons.

Donor Relations: USAID coordinates closely across the development spectrum with other international donors. Specifically, in education and early childhood care, USAID works closely with the IDB, IBRD and Japan; in the agribusiness/agriculture sector, with IDB and Japan; in the areas of micro-finance to help

develop small and medium-sized enterprises, and in watershed management, with the Canadian Development Agency (CIDA), IDB, UICN (World Conservation Union), and the EU; in strengthening the legislative Assembly, USAID coordinates with IDB; in health, with IDB, World Bank, CIDA, UNICEF, PAHO, WFP, IBRD, Spain, UNFPA, Japan and Germany; in local governance, with IDB, UNDP and Germany; in judicial strengthening/rule of law, with IDB, Spain and UNDP; and in earthquake reconstruction, with IBRD, IDB, CABI, Japan, EU, CIDA, Germany and Spain.

Challenges: Damages resulting from earthquakes that struck El Salvador in January and February 2001, killing 1,159, injuring 8,122, destroying 149,528 homes and damaging an additional 185,338, destroying water systems, basic sanitation and schools and public health facilities, have not yet been fully addressed. Thousands of earthquake-affected Salvadoran families still wait for adequate housing and access to social services, i.e., schools and health centers. Earthquake reconstruction continues, but is constrained by declining international assistance and a limited national budget. The widening income gap between rich and poor poses another challenge as the wealthiest 20% of households are receiving a greater share of national income today than a decade ago while the poorest 20% now receive less income than before. Downward social mobility, particularly among the middle class and the poor, is calling into question the benefits that an emerging democracy and open economy promised to deliver. Over the last decade, the Salvadoran economy has been restructured from one based on agriculture to one emphasizing textile assembly or “maquila” processes. During this period, 90,000 jobs have been shifted out of agriculture and into the “maquila” sector. In 2005, the multi-fiber agreement will expire, permitting Chinese textile goods to compete freely on world markets. China’s much more competitive labor-cost structure threatens to displace some of El Salvador’s textile industry.

Key Achievements: During FY 2003 progress was made in all programmatic areas. Earthquake reconstruction made significant headway, providing permanent low cost housing to thousands of families living in temporary shelters and new and rebuilt water systems are now reaching more than 105,000 poor people. Programs that focused on the rural agricultural and micro-enterprise sectors significantly contributed to increased economic activity with incomes and employment increases in most sectors. The reconstruction and expansion of potable water systems has substantially increased access of rural people to clean water. The results of El Salvador’s 2003 National Family Health Survey show substantial improvement in infant mortality, total fertility, and in the contraceptive prevalence rate; all areas of intensive USAID program focus. Other achievements include a successful community-policing program that is now covering 174 out of 262 municipalities. Police presence and improved ability to communicate rapidly and effectively among officers has contributed to reduced criminal activity and increased police credibility. Official statistics show that crime dropped (5.66% from last year), for the third straight year. According to the Ministry of Education, over 97% of rural children aged 7 to 10 years old now attend school, exceeding this year’s target of 95%.

1. **Economic Growth and Education:** This SO supports activities that expand access and economic opportunities for the rural poor. USAID support of development and implementation of key energy sector strategies, laws, and regulations strengthened GOES’ energy policies and rural electrification programs, resulting in additional construction of rural distribution lines and increased rural household access to electricity. Approximately 60% of rural households now have access to electricity*. USAID technical assistance to micro-finance institutions has led to increased access to lending and increased savings among microbusinesses, especially in rural areas. USAID technical assistance and training helped the Ministry of Finance strengthen its voluntary tax compliance program, leading to an increase in tax collections of more than \$135 million. USAID has also helped the Superintendent of Electricity and Telecommunications with training to improve the regulator’s ability to implement new energy laws and regulations. USAID programs are addressing the developmental needs of poor, rural children below the age of six through improved early childhood care and education as well as supporting improved educational quality in the classroom during the first six years of schooling. USAID programs have been helping El Salvador’s public and private sectors make the transition to a free trade environment through substantial assistance in trade capacity building to the GOES and to small and medium sized private enterprises.

* In 2001, the GOES began to reclassify some rural areas as urban. As a result of this reclassification,

the percentage of rural households with electricity decreased significantly. Based on this reclassification, USAID has revised its FY 2003-2005 targets accordingly.

2. Democracy and Governance: USAID's democracy program is working to strengthen democracy at the national and local levels. Access to justice continues to improve. Four mediation centers were opened this past year, bringing the total to six. These centers provided free legal advice and mediation services to 4,252 people, largely rural, who had limited access to the formal justice system. USAID has helped the GOES develop an ethics code which will create an office of government ethics for public sector employees. The Court of Accounts, with USAID assistance, drafted the new code and held public hearings after submitting it to the Legislative Assembly in March. The bill is currently under review with the Legislative Commission. Successful free and fair municipal and legislative elections were held this past year. USAID assistance to the Supreme Electoral Tribunal to reorganize and modernize its management systems and structure contributed to this important result. The Legislative Assembly approved long-standing electoral reforms to legalize use of a new, secure, national identity card as the official voter registration document. With USAID and GOES support, more than 3.4 million of these cards have been issued and a new, more secure voter registry has been developed which will be used in the upcoming Presidential elections.

3. Health: This SO seeks to promote improved child survival practices and services, prevent and control sexually transmitted diseases, and support efforts to improve the quality of and access to reproductive health services and practices. The results of El Salvador's 2003 National Family Health Survey (FESAL), developed with technical assistance from the U.S. Centers for Disease Control and Prevention and financed by USAID, indicate great improvement in infant mortality, total fertility, and contraceptive prevalence rates over the last five years, due in part to USAID's provision of technical assistance and training; health information, education and communication (IEC); and purchase of supplies and equipment for the Ministry of Health (MOH). To address HIV/AIDS in high risk groups, USAID funded HIV/AIDS seroprevalence studies and prevention efforts among pregnant women and members of the national police force. USAID's active participation in the GFATM (Global Fund to Fight AIDS, Tuberculosis and Malaria) initiative, which included technical assistance to the country coordination committee, helped El Salvador receive approval of a \$27 million program for HIV/AIDS and TB treatment and prevention. USAID remains an active participant on the local coordination committee.

4. Water and Environment: USAID efforts to improve water quality and access have concentrated on small farmers in fourteen micro-watersheds. At present, 11,249 farms actively participate in water conservation practices covering an area of 29,170 hectares, nearly 1,500 hectares more than the 2003 target. Program interventions include water source protection, soil conservation, and improved agricultural practices that increase both quality and quantity of ground water. The provision of extension services at the small-farm level, successfully using demonstration farms to influence neighboring farm practices, has succeeded in getting large numbers of small farmers and other rural community members to "buy into" and practice water management. The number of new, rehabilitated, and/or expanded water systems now totals 106. This is three systems short of the 2003 target, while the total number of families served by these systems is just 636 short of the target of 34,662. USAID continues to leverage other donor financing for the construction of these water systems.

5. Earthquake Reconstruction: Implementation of USAID's Earthquake Recovery Program (ERP) continues to make significant progress in addressing earthquake-related needs of poor rural communities. As of November 30 more than 20,000 houses for earthquake affected victims were completed or under construction in 810 communities across the country. Of a total of 202 projects to rebuild or repair health facilities, schools, childcare centers, markets, municipal offices, rural roads, and water and sanitation systems, 134 are completed or are under construction, 46 projects are beginning construction, and 22 are in the design stage. ERP efforts to help reactivate the rural economy in earthquake areas have assisted almost 45,000 micro, small and medium-sized entrepreneurs (MSMEs) and farmers. Technical assistance to farmers has resulted in sales of more than \$4.63 million. Progress has been made in increasing El Salvador's preparation for future disasters through the strengthening of the Ministry of the Environment's ability to monitor floods, seismic activity, and landslides, as well as forecast weather patterns. In addition, 29 high risk municipalities have completed disaster mitigation and land use plans which means they are

better prepared to deal with future natural disasters.

The ERP's health program provided for reconstruction of thirteen health facilities, including the national prosthetic center, FUNTER; five Ministry of Health (MOH) primary health care units serving a population of 333,000 people; an AmeriCares rural health clinic capable of serving 78,000 patients; and 6 small rural health facilities designed to serve 8,400 beneficiaries. As of November 2003, twelve of these health facilities were completed or under construction and one will soon begin construction. The AmeriCares' rural health clinic began serving the community of Santiago de Maria on November 12, 2003.

Country Close and Graduation:

Results Framework

519-001 Expanded Access and Economic Opportunities for Rural Poor Families

SO Level Indicator(s):

Rural children Aged 7-10 Attending School

Rural Households with Electricity

1.1 Better Educated/Trained Rural Residents

1.2 Improved Use of Land

1.3 Expanded Equitable Access to Financial Technological and Marketing Services by the Rural Poor

1.4 Better Rural Productive Infrastructure

519-002 More Inclusive and Effective Democratic Processes

SO Level Indicator(s):

Cases Filed in Criminal Courts in Targeted Geographic Areas

Households in Target Municipalities Receiving Selected Municipal Services (Garbage and Final Disposition)

Number of Congressional Sponsored Constituent Service Offices Established by Department

2.1 More Politically Active Advocacy Organizations

2.2 More Effective Electoral Administration

2.3 Strengthened Local Government

2.4 Increased Use of the Justice System

2.5 Improved Court Case Preparation Management

519-003 Health of Salvadorans, Primarily Women, Youth and Children, Improved

SO Level Indicator(s):

Child Mortality Rate

DPT3 Coverage of Children under 12 Months Old

Infant Mortality Rate

Maternal Mortality Ratio

Percent of Births Attended

Total Fertility Rate

3.1 Access to Quality Health Related Services Increased

3.2 Use of Health Related Services/Practices

519-004 Increased Access by Rural Households to Clean Water

SO Level Indicator(s):

Rural Households in Target Areas with Water that Meets Quality and Time Standards

4.1 Improved Quality Water Sources

4.2 Improved Performance of Water Delivery Systems

4.3 More Effective Citizen Actions Address Water Issues

4.4 Greater Municipal Participation in Water Resources Management

519-008 Lives of Targeted Earthquake Victims Improved

SO Level Indicator(s):

Increased Export and Domestic Sales of Farmers Reached by USAID in Earthquake -Affected Areas

Increased Export and Domestic Sales of Micro, Small and Medium Enterprises Reached by USAID in Earthquake-Affected Areas

Number of Community Services Infrastructure Projects Completed

Number of Houses Reconstructed

Number of Local Governments with Strengthened Capacity to be Prepared for and Respond to Natural Disasters

8.1 Community Infrastructure Restored for the Rural Poor

8.2 Economic Activity Reactivated

8.3 Adverse Effects of Future Natural Disasters Mitigated

8.4 Municipal Government Infrastructure Restored

- 519-021 Ruling Justly: More Responsive, Transparent Governance**
- 519-022 Economic Freedom: Open, Diversified, Expanding Economies**
- 519-023 Investing in People: Healthier, Better-Educated People**